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FM AMEMBASSY MOSCOW  
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INFO RUEHDX/MOSCOW POLITICAL COLLECTIVE  
RUEHBJ/AMEMBASSY BEIJING 4451  
RUEHKO/AMEMBASSY TOKYO 4209  
RHEHNSC/NSC WASHDC  
RHEHAAA/WHITE HOUSE WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHDC

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E.O. 12958: DECL: 12/24/2018  
TAGS: [ETRD](#) [EIND](#) [EINV](#) [ECON](#) [PGOV](#) [RS](#)  
SUBJECT: RUSSIA REACTS TO DUTY INCREASES ON CARS

REF: A. VLADIVOSTOK 137  
[1](#)B. VLADIVOSTOK 135  
[1](#)C. VLADIVOSTOK 130  
[1](#)D. MOSCOW 3669  
[1](#)E. MOSCOW 3678  
[1](#)F. MOSCOW 3563

Classified By: CDA Eric Rubin, Reasons 1.4(b,d).

SUMMARY

[1](#)1. (C) In the first sign of open discontent with GOR measures to deal with the financial crisis, protests continue to mount throughout Russia over increased duties on imported cars and tighter restrictions on imported used cars (Refs A, B, C). Thus far, the GOR has largely rebuffed the protesters, as well as the pleas of foreign car manufacturers and Japanese and EU diplomats. Civil society activists have told us that in contrast to human rights activists, the protesters are viewed as sympathetic, "mainstream" figures by the Russian public, which complicates government efforts to respond to the protests. End summary.

Russia Raises Duties on Automobiles

[1](#)2. (U) In November, the Tariff Policy Commission, chaired by First Deputy PM Zubkov, recommended that the GOR increase the duty on imported automobiles from the current rate of 25% ad valorem to a new rate of 30%, to provide protection to the state-owned car manufacturer Avtovaz, which has been steadily losing market share to foreign car companies. The commission also recommended applying a prohibitive duty rate to all imported vehicles older than five years (instead of the current seven years), a measure largely aimed at tightening the restrictions on the large volumes of used right-hand drive cars brought into the Russian Far East and Siberia from Japan.

[1](#)3. (U) The new duty rates will become effective on January 11, 2009. While the order and the attached revisions to Russia's tariff schedule are complex, it raises the duties on almost all classes of vehicles to 30%, and makes equivalent increases in the Euro-designated duty rates that are based on engine capacity. (NOTE: Because of additional VAT and excise taxes based on engine capacity on top of the duty rate, the effective rate on an imported vehicle after clearing customs is in many cases more than 50% of the car's declared value.)

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Protests throughout Russia  
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14. (SBU) Protests over the car duties and tighter restrictions on used cars started in early December in the Russian Far East and have since spread throughout Russia (reftels). The protests marked the first major public opposition to GOR policies enacted in response to the economic crisis. In an apparent attempt to ease tensions in the wake of the initial protests, Duma Speaker Gryzlov announced on December 18 that the Duma would look carefully at the question of car duties. However, the Duma has no power to overturn the GOR Resolution that PM Putin signed and Putin has given no sign that he is prepared to back down on the increased duties.

15. (SBU) The protests have continued despite government pressure and intimidation and despite counter rallies held in the car manufacturing cities of Tolyatti and Ulyanovsk on December 18, designed to undercut the demonstrators' public appeal. Vladivostok journalists and social activists publicly criticized local law enforcement's handling of the most recent protests this past weekend. They presented video and photographic evidence to the office of the Primorye Krai prosecutor, showing that OMON police detachments used excessive force against protesters and journalists. Journalist's Union of Russia Chairman Vsevolod Bogdanov has said he plans to appeal to the Russian parliament, claiming that law enforcement agencies had broken the law. Primorye Krai Prosecutor Senior Advisor Irina Nomokonova publicly said a criminal suit against OMON officers is being considered.

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Foreign Car Makers Rebuffed  
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16. (C) Our contacts in the car industry report that there is also general opposition among the foreign carmakers to the increase in the duty on imported vehicles, even among those that also have domestic production operations, such as GM and Ford. Chris Caulfield, Ford's Russia CFO, told us that the duty rise would increase the cost of Ford's small and medium-sized imported cars by about six percent, and by an even higher percentage for larger vehicles. GM, Ford and Chrysler strongly supported a letter from the Association of European Businesses to First Deputy PM Zubkov objecting to the proposed increase in duties. Heidi McCormack, GM's Executive Director for Russia, told us that she expected that the GOR would continue to ignore foreign companies' concerns and move ahead with duty increases.

17. (C) John Stech, CEO of Chrysler Russia, told us that the strengthening of the dollar against the ruble since August was also having an impact on sales, though less for luxury vehicles for which demand was not particularly price-sensitive. For most vehicles, however, sales were down. Taken together, the duty increase and weak ruble would be a "double whammy" increase in costs for the foreign car producers. While Chrysler had not yet decided on general price increases, other manufacturers, including Ford, Toyota, Volvo, Mazda and Hyundai, had already announced price increases for 2009, which would likely further suppress sales.

18. (C) In Stech's view, however, neither the weakening ruble nor the duty increase would lead to a major increase in Avtovaz's sales. The Lada's starting price of \$5,000 was already half the price of most economy class foreign models, except for a few very low-end Chinese brands. Recognizing that the Lada was an inferior product, most consumers would still choose to buy a higher-quality foreign model. However, with tight consumer credit conditions (Ref E), the average Russian consumer would now likely have to save longer to buy a car.

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¶9. (SBU) With used Japanese cars supplying the bulk of the car market in the Russian Far East, Japanese diplomats have attempted to persuade the GOR, so far without success, not to raise duties or tighten the restrictions on used cars. On December 4, Japanese Minister of Economy, Trade and Industry Nikai sent letters to Economic Development (MED) Minister Nabiullina and Industry and Trade Minister Khristenko. Japanese Vice Foreign Minister Ito also raised the issue with Deputy FM Denisov and Deputy Economic Development Minister Klepach in separate meetings on December 8 and 9. Thus far, Russia has not offered any substantive response to the Japanese demarches.

¶10. (SBU) The EU Mission has also protested the increased duties. The EU has objected to the duty increase not only on the basis of Russia's G20 commitments, but also based on Article 16 of the EU-Russia Partnership and Cooperation Agreement (PCA). That article provides for consultations with the EU before a decision is made to raise duties, a commitment that Russia ignored in this case. In addition, the EU has argued that an increase in duties was not in keeping with the WTO standstill principle, under which countries in the final stages of WTO accession traditionally refrained from any duty increases. The EU Mission told us that MED officials tried to downplay the duty increase, claimed other countries were also supporting domestic car industries, and that the EU had not always honored the consultations article of the PCA -- though they had been unable to cite any examples.

¶11. (SBU) Our own efforts to remind Russia of its G20 commitments not to erect protectionist measures were shrugged off by the Economic Development Minister with the comment that "some countries," including Russia, are authorized to raise duties in special circumstances to protect vulnerable domestic industries (Ref F).

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COMMENT  
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¶12. (C) As the economic crisis deepens, the GOR is likely to face an increasing number of situations where its policy choices create losers as well as winners. The protests over the increased duties on imported cars and tighter restrictions on imported used cars pit Russian consumers, especially in the Far East, against the domestic car manufacturers. The protests demonstrate that managing the reactions of the losers, especially when they are domestic constituencies, will be a major challenge. Further complicating the picture for the GOR, civil society activists have been quick to make the point to us that the automobile protesters, in sharp contrast to human rights activists, are seen by the Russian public as sympathetic "mainstream" figures.  
RUBIN